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INDICATORS AND TRENDS OF ECONOMIC GLOBALISATION[1]

Stanislav Menshikov (Russia)[2]

1. Definition and Historical Setting

The term "globalisation" has been widely used in recent years, yet its exact meaning is yet to be defined. In economic terms "globalisation" has been used to describe rather close but still somewhat different phenomena:

(1) the process of increasing mutual interconnections and interdependence of national economies on a world-wide scale meaning that this process also involves an increasing number (an absolute majority) of national economies and is accompanied by the liberalisation of international economic flows;

(2) the process of extending to other or all parts of the globe economic activities originating in certain countries or groups of countries (for instance, by way of transnational corporations - TNCs);

(3) the progress in moving towards a united global economy without national barriers, the integration of national economies into one global economy.

While one could look at these definitions as reflecting different aspects and manifestations of basically the same set of processes, they do point to important differences in the treatment of such processes.

Indeed, the first definition which puts the stress on interconnectedness and interdependence, seems to be purely descriptive of the progress in economic exchange between nations. Such exchange has existed since times immemorial, and hardly any nation, at any point in history has been immune to such

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[1] Paper presented at a seminar "Globalization and Social Change," on November 5, 1999 at Research Center on Development and International Relations, Aalborg University.

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exchange or completely isolated from it, at least not for very long historical periods.

Economic historians usually associate the beginnings of world (global) trade, world markets and the world economy with the Great Geographic Discoveries of the late 15th and early 16th centuries which established the first regular sea trade links between Europe and most other continents. The fact that trade routes over land between Europe, Asia and Africa existed long before Christopher Columbus, this view is obviously eurocentric, since it ignores the obvious fact that earlier civilisations might have contributed even more to global economic progress than ancient or feudal Europe. The new book by Andre Gunder Frank is a brilliant analysis of the global economy as it existed in pre-Columbian times and provides (in the words of one reviewer) "a compelling argument against Eurocentrism" and "forces us to turn the telescope of world history around to see that the focus was, and is Asia NOT Europe."[3]

Even so, the unprecedented rise in world economic exchange that occurred after 1500 and particularly after 1800 is certainly correlated with and largely explained by the development of capitalism first in Europe, then on other continents, which, as a universal (all-embracing) form of market economy provides a natural mechanism for growing interconnectedness of economies, first local, then national, and finally global. Whatever economic progress under the Asiatic Mode of Production, it could not provide the underlying mechanism for economic interconnection to become global.

Because capitalism arose first in Europe, and in North America, and on other continents later, one can also see how important is the second definition of globalisation mentioned above which considers it as a process of extending certain economic activities to other parts of the globe. It is obvious that the predominant form of globalisation so far (starting with 1500 and particularly after 1800) has been the extension of capitalism initially in Europe and later from Europe, North America and Japan to other continents and has had the effect of partially or completely destroying other types of economic organisation. At the close of the 20th century this process can be seen, *inter alia*, in the expansion of transnational corporations and in the spread of the

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[3] Andre Gunder Frank, ReOrient: Global Economy in the Asian Age, University of California Press, 1998.

American model of capitalism which claims superiority and dominance over other capitalist models (European, Japanese, New Tigers).

Another result of this process was the demise of communistic socialism in Eastern Europe and parts of Asia, the capitalistic transformation of this area and its painful integration into the dominant capitalistic world order.

This raises the issue as to whether convergence of national economic systems to one model of socio-economic organisation is the only and inevitable route in which globalisation has to and will proceed, or whether economic interconnection and interdependence signifies the less painful alternative of mutual coexistence and adaptation of different models to each other.

This paper does not pretend to suggest a solution to this issue. Obviously, the eventual winner in any race is the most efficient participant. A lot depends, however, on which criteria of efficiency are used to choose the winner. These could be based on the rules of the market or, alternatively, on the principles of equity, compassion and human rights. It could be the simple rule of democratic choice between available choices, or, alternatively, the discipline of survival on a planet with not unlimited resources. Whichever set of criteria one uses, it is not at all clear that the currently prevailing models of socio-economic organisation are up to the task of providing humanity with the best solutions and that current patterns of globalisation can guarantee sustainable development of the world economy.[4]

Abstracting for a moment from the different economic models we have to admit that progress in economic interchange between nations is dependent on technology. Forgetting about feudalism, capitalism, communism, the Asiatic mode of production, the fact is that the absolute level and intensity of economic international interconnection is dependent on the level and availability of technology, particularly in transportation and communications, and also on the means of their production. Columbus could not have discovered America were

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[4] I quote here from the Prospectus of the Gorbachev Foundation's Research Project on Globalisation: "Our initial hypothesis is that the survival and development of mankind is increasingly dependent on its ability to effect a profound spiritual reformation, to be followed by a dramatic reordering of the social, economic and cultural patterns of its development. The Project is, in fact, an attempt to verify this hypothesis." Let me say offhand that this approach is very different from the approach taken by Francis Fukuyama in his "End of Civilisation" who, for all practical purposes, sees one and only one model for the future of humanity.

it not for the fantastic (for his times) progress in sea navigation. The virtual explosion of today's currency markets would be impossible without the advent of computers and Internet. Whatever the future of globalisation, progress in international interdependence cannot due to modern technology be turned around, at least not easily and not for long.

Of course, the relation between technology and globalisation is not simple and not necessarily linear. The basic framework and infrastructure that permits a given intensity of international economic interchange (and its maximum) is determined by technology. But prevailing socio-economic models will determine the actual rate of utilisation of this technological potential. Because technology tends to generally develop faster than the ability of human beings and their socio-economic systems to adapt to new technologies, the latter will exert, as they have in the past, a revolutionary impact on socio-economic systems and push them towards adaptation and change. To be successful and even to survive, systems should, with time, become less rigid and more flexible.

Finally, I come to the third definition of globalisation which puts the stress on movement towards one global economy, integrated and without national barriers. Insofar as historical evidence shows, there is no clear trend in this direction. Forces leading to integration and disintegration have historically worked in parallel to one another, one prevailing over the other in different periods of time. The immediate outcome of their interaction has largely depended on political, rather than economic forces. Thus one can think of a fairly closely integrated regional economy within the Roman Empire at a certain high peak period of its existence. Later it disintegrated into many independent feudal kingdoms which were less economically interconnected. Early capitalism led to the emergence of new relatively well economically integrated global colonial empires which, however, disintegrated in the 20th century leading to the new multiplicity of 150 or so sovereign national economies. In the second half of our century, there is a strong trend towards integration on a regional scale (EU, NAFTA, etc.). At the same time a large formerly economically integrated part of Eurasia - the Soviet Union - fell apart both politically and economically.

We shall come back to this subject in section 4. Here it is sufficient to observe that there is little likelihood of more integration (in the sense of eliminating national barriers) if coexistence of different socio-economic models prevails

over convergence. Integration (in this sense) on a global scale will also depend on the continuing existence of the gap in levels of economic development, productivity, incomes, and wealth between nations. It is not reasonable to expect integration between nations which are divided by such a chasm, at least not a type of integration that can avoid economic dominance, i.e. new forms of colonisation.

2. Statistical Indicators

Levels and intensity of international economic interchange are measurable with regard to most components, i.e. the movement between nations of goods, services, some factors of production (i.e. capital, labour, technology), migration of human beings, information, etc. For reasons of space this paper explores only statistics related to international trade, production, international capital investment, and international financial markets.

Trade and Production

We start with comparing two long time series from 1820 to 1992 reconstructed by Angus Maddison.[5] The two series are in constant 1990 dollars which makes it possible to calculate both ratios of world trade to world GDP and their individual growth rates. Any historical statistics of such length are subject to doubts as to their accuracy. However, our aim is to look at big changes, not small variations and derive a relatively true albeit generalised picture.

In both the 19th and 20th centuries world trade was expanding substantially faster than world output. Growth in GDP in 1820-1900 was relatively slow, and it seemed easy for world trade to grow three times faster. Of course, the world output totals included the then very slow growing Russia and China whose combined share however was pretty high. Output growth accelerated sharply in the 20th century (from 1.3% in 1820-1900 to 2.9% in 1900-1992, and to 4.0% in 1950-1992). World trade throughout the 20th century did not grow faster than previously (3.8% in 1820-1900 and 3.7% in 1900-1992) but it still expanded faster than GDP). In the second half of the century it accelerated to 5.7% increasing the difference vis-à-vis output to 1.7 percentage points.

Table 1. World Trade and World GDP
(billion 1990 dollars)

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[5] Angus Maddison, Monitoring the World Economy, OECD, Paris, 1995.

	1820	1900	1950	1960	1970	1980	1992
World GDP	695	1977	5372	8449	13811	20006	27995
World Exports	7.26	139.7	375.8	701.0	1466	2292	3786
World Exports/ World GDP	1.0	7.1	7.0	8.3	10.6	11.5	13.5
Annual growth rates in period							
WGDP		1.3	2.0	4.6	5.0	3.8	2.8
Wexports		3.8	2.0	6.4	7.7	4.6	4.3

Source: Angus Maddison, Monitoring the World Economy, OECD, Paris, 1995, pp. 20, 39, 227, 239.

On the whole, the ratio of trade to output grew by about the same number of percentage points - from only 1% in 1820 to 7.1% in 1900 and to 13.5% in 1992. This finding is certainly less than spectacular if we contrast it with widespread perceptions of the rate of globalisation at the end of the 20th century. We therefore have to compare the Maddison data with other sources, for instance, World Bank figures which are in current prices.

Table 2. World Output and Trade (World Bank)
(billions of current dollars)

	1980	1995
World GDP	10768	27846
World Exports	2004	5145
Ratio of Exports to GDP (%)	18.6	18.5

Source: "World Development Report. 1997," World Bank, 1997, pp. 237, 243.

While the ratio, according to these data, are substantially higher that the Maddison figures they, strangely enough, show no rise in the last 15 years when globalisation, in the general intuitive view, was accelerating and, at least progressing.

To make a step further, we have to bear in mind that world trade measures only exchange in goods while GDP includes both goods and services. For the comparison to be more meaningful we have to look at the ration between trade and non-service GDP (we could also compare GDP with world trade in goods and services, but the later data as a total for the world is either not readily available or non-reliable[6]).

Based on the Maddison data we have further estimated the share of service GDP in total GDP for the whole period of 1820-1992 (see Table 3). The share of non-service GDP declined slowly in the 19th century, but later the decline accelerated bringing the ratio down to only 43% (as compared to 89.5% in 1820 and 70.9% in 1913). When we account for the much slower growth of non-service GDP, particularly in the 20th century (as compared to total GDP), the ratio of trade in goods to output of goods makes a nearly threefold jump between 1950-1992 reaching 31.5% by the early 1990s. This looks like a more sensible estimate of the substantial, revolutionary increase in trade interdependence in the second half of the 20th century comparable in relative scope only to the historical periods between 1820-1870 and 1870-1913.

Table 3. Non-Service GDP and Trade (Maddison)
(billions of 1990 dollars)

	1820	1870	1913	1950	1992
World GDP	695	1128	2726	5372	27995
World NS_GDP	622	909.2	1932.7	3422	12093,8
Share of NS_GDP (%)	89.5	80.6	70.9	63.7	43.2
World Exports	7.26	56.25	236.3	375.8	3786
%WX/NS_GDP	1.2	6.2	12.2	11.0	31.3
%WX/WGDP	1.0	5.0	8.7	7.0	13,5

The World Bank, conveniently enough, provides us with its own estimates of the share of non-service GDP in total world GDP - 47% in 1980 and 37% in 1995. The latter figure is not too different from our own estimate based on

6 The World Bank provides most figures for individual countries but fails to calculate and publish world totals.

Maddison. If we now relate world exports of goods to non-service world GDP, the ratio, based on World Bank figures, looks as follows:

Table 4. World Trade and Non-Service GDP (World Bank)
(billions of current dollars)

	1980	1995
World GDP	10768	27846
Share of Non-Service GDP (%)	47	37
Non-Service GDP	5061	10303
World Exports	2004	5145
Ratio of World Exports to Non-Service GDP	40	50

According to the World Bank, the part of world goods output that enters world trade has increased in those 15 years from 40 to 50%. Both figures seem to be too high. This is perhaps due to the fact that trade flows are measured according to full market values while data on non-service GDP are value-added figures. We have not tried to convert GDP figures to full market value or the trade figures to value added equivalents. Therefore the ratio should be seen as indicative more of the historical trend than of the exact share of output entering international commerce. Without passing a final judgement, we can presume that the real average measure of interconnectedness between nations via trade in goods is anywhere between one third and one half of world value added in goods output.

Investment

International movement of capital is another important indicator of economic interdependence. Investment in foreign assets takes various forms which can be roughly classified as belonging to four different groups:

(1) direct investment (associated with financial and management control over foreign business units);

(2) portfolio investment (which includes absentee foreign ownership of securities issued by both private and public entities);

(3) loans (extended by private financial institutions, governments or international financial institutions);

(4) short-term capital (which mostly, but not exclusively, consists of deposits in foreign banking institutions).

In quantity terms, the relative importance of these forms can be illustrated by data showing the breakdown of US investment abroad and foreign investment in the US (this country is the largest world investor in other countries and also the largest market for investment coming in from foreign lands). At the end of 1989, US investment abroad totalled $1338 billion dollars, including $84 billion (6%) in government loans, $373 billion (28%) in direct investment, $190 billion (14%) in foreign securities, $33 billion (2.5%) in private commercial loans and $658 billion (49%) in short-term foreign assets and bank loans. In the same year, foreign investment in the US totalled $2075 billion, including $337 billion (16%) in foreign official assets (mostly US government securities), $400 billion (19%) in direct investment, $625 billion (30%) in private portfolio holdings, $39 billion (2%) in private commercial loans and $674 billion (32%) in short-term assets or bank loans.[7] The breakdown of total world foreign investments is not noticeably different from these figures, though country data may show substantial divergence from the general pattern.

In terms of quantity the three most prominent items on both sides of this balance sheet are obviously bank short-term assets, direct investment and portfolio holdings. In terms of relative stability (defined in this case as opposite to volatility) direct investment ranks first followed by portfolio holdings and short-term capital (which is largely speculative). Direct investment is also important in other ways since it is necessarily and directly linked to the international flow of goods, the transfer of managerial talent, information and technology. Direct investment is also increasingly affecting relative international income levels and income distribution.

Direct investment. This is largely a 20th century phenomenon, which, unlike trade, was of little practical importance in the 19th century. Official estimates on a worldwide basis first became available with the publication in the 1980s of UN reports on the activities of transnational corporations, and later of the

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[7] Source: Economic Report of the President of the US, 1990. Interestingly enough, in 1972 direct investments were 52% of total US assets abroad (as compared to only 28% in 1089) while short-term capital was a meagre 8% of the total compared to 49% at the end of the 80s. The trend is clear.

Annual World Investment reports by UNCTAD (United Nations Conference on Trade and Development). These estimates show a rapid rise of direct investment stock in the 1980s and 1990s. From $479 billion in 1980 they rose to $745 in 1985, $11726 billion in 1990, $2866 in 1995 and $3233 billion in 1996.[8] The average annual growth rate was 13.7% in the 1980s and 11.0% so far, in the 1990s.

But overall, the rise in direct investment stock in 1980-1995 (6 times in current prices) was well ahead of the rise in world trade and world GDP (both - 2.6 times). The ratio of direct investment stock to trade changed from 25.0% in 1980 to 56.5% in 1995 and the ratio of direct investment stock to world GDP rose from 4.6% in 1980 to 10.1% in 1995. In both cases the ratio more than doubled. The ratios of world direct investment flows, rather than of stock, are much smaller (6.1% to world trade and 1.1% to world GDP in 1995). But then it is the stock of capital that (together with other production factors) acts to produce output and sales, rather than one-year investment flows. Direct investment flows remained around 5.2-5.4% of world gross fixed capital formation, both in the 1980s and 1990s. Gross product of foreign affiliates amounted to 5.2% of world GDP in 1982 and rose slightly to 6.0% in 1994. According to the 1997 World Investment Report, one dollar of foreign direct investment stock generates value added worth 64 cents.[9]

Direct investment is usually associated with the expansion of transnational enterprise, since in most cases the controlling and managing investor is a corporation based in a foreign country. Therefore, one can safely conclude that the share of transnational corporations in global output has more than doubled in the last 15 years. It is more difficult to correctly calculate the share of such corporations in world trade and global output. There is evidence to the effect that between 1971 and 1991 the combined sales of the world's 500 largest multinational corporations have grown sevenfold (from $721 billion to $5.2 trillion).[10] The latter figure is about a quarter of global GDP. The comparison is

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[8] The source is "World Investment Report 1997," UNCTAD, Geneva, pp. 4, 313.

[9] Ibid., p. 16.

[10] From the "World Investment Report 1993" as cited by William Greider, "One World, Ready or Not? The Manic Logic of Global Capitalism," Simon & Schuster, New York, 1997.

valid since the sales figure includes both domestic sales within the base country, exports and also sales in other countries by units belonging to the TNCs.

Comparisons with world trade are more difficult since this involves estimates of the volume of international interchange which is performed both outside the TNCs and related to regular export sales and import buying and also the flow of goods between the various units inside one TNC but situated in different countries. One report gave the following breakdown of such flows in the mid-1980s: 18% of total sales of TNCs are exports from the base country, 39% are sales of units situated elsewhere around the world, and the remainder, 43% are domestic sales in the base country. The share of foreign subsidiaries of TNCs in their total sales increased from 30% in 1970 to 40% in 1980 and to well over 50% in 1990. Because wages abroad were usually lower than in the home base country, the share of labour employed in foreign subsidiaries (56%) and in net profits (60%) is even higher.

Formerly most foreign subsidiaries in manufacturing were set up for the purpose of capturing the local market and markets of neighbouring markets making it possible to avoid tariff barriers on direct exports. Most of such investment was in other industrially developed countries, for instance, US and Japanese plants in Europe, or European and Japanese plants in the US. In these cases, a significant part of components for assembly in foreign subsidiaries would be imported from the home base of the mother country. Later on, TNCs also started setting up manufacturing subsidiaries in developing countries with the purpose of producing low cost components which would be used in their base country's assembly plants. Therefore a growing part of the output of such foreign subsidiaries is now being shipped back to the country which was the source of capital investment in the first place. Of course, foreign subsidiaries in mining were nearly always used to supply manufacturing plants in the foreign with cheap fuel and raw materials.

According to various private estimates, major multinationals account for one third of all world-manufacturing exports, three fourths of all commodity trade and four fifths of trade in technology. More than 40% of US exports and nearly 50% of its goods are flows which occur inside TNCs and are not regular trade in open markets between nations (though counted as such in trade statistics).[11]

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[11] Ibid., pp. 21-22.

Assuming that the same shares apply to exports and imports of Germany, Japan and United Kingdom we come up with a total for 1995 of $1635 billion, or 32% of world trade. Adding in other countries with large home based multinationals, one could probably come up with a general estimate of 40% of total world trade accounted for by intra-TNC goods movements.

There are at least, three ways in which the rise of such flows is important. (1) They obviously explain the big surge in the dependence of output on trade in the last 15 years. (2) These are not genuine market transactions generated by competitive determination of supply and demand and conducted in market determined equilibrium prices. (3) They are an expression of a totally new phenomenon in international economic activity, i.e. international planning as well as output, investment, sales, price determination on a supranational level.

Portfolio investment. We have not been able to come across or attempt to compile statistics of world portfolio investment in stocks and bonds. Judging by US figures, world totals could easily exceed total direct investment and, perhaps, reach $6 or 7 trillion.

Unlike direct investment where geographical location of plants, availability of markets and supplies, wage rates, business infrastructure at location and similar conditions are very important, portfolio investment is largely guided by securities' yield, growth prospects, liquidity and speculative considerations. The country of issue is important but not overwhelmingly so. The best markets are, of course, those that are long established and easily accessible. For instance, annual trade in US bonds grew from $50 billion in 1983 to $500 billion in 1993, a tenfold increase in a decade, twice faster than the rise in world direct investment.

The dependence of governments on foreign buyers of public bonds differs from country to country and from one type of bond to another. Foreign holdings of US public debt securities of all kinds are relatively stable at 20% of their total value. In Russia, which is an emerging market with little experience and a relatively unstable political climate, foreign investors now own up to 30% or more of outstanding Treasury bonds (so-called GKOs and OFZs). Eurobonds issued by various countries are held largely by foreigners, and this is a rapidly

expanding market. All in all, world markets in government bonds have become a significant source of financing and re-financing rising public debt around the world.

This trade is not only an outlet for relatively non-risk investment for institutions, firms and individuals, but also a means for speculation. World markets in government bonds are estimated to have reached a daily turnover of $200 billion every day (data for 1993) which translates into an annual figure of $60 trillion. This is more than twice world GDP and nearly 12 times larger than world trade in goods.

World trade in stocks has also expanded rapidly but is substantially smaller than trade in bonds - $25 billion per day, or close to $4 trillion per year. Even so trade in stocks is only slightly smaller than world trade in goods. Because of the technical revolution in communications and liberalisation of international capital movements, investors in most countries are now able to invest and trade in practically all stocks quoted in leading stock exchanges around the world either directly or through mutual and other investment funds.

For instance, a typical offshore mutual fund run out of New York and with customers around the world would have diversified investments in stocks of companies in more than 30 countries, from the US, Japan and Hong Kong to Australia, Russia and China. Private savings in dozens of countries are being internationalised as one big pool available for investment in private companies on a worldwide scale.

Short-term capital. This is represented mostly by foreign deposits in commercial banks. The world total in these assets is estimated at approximately $10 trillion in 1993. This is the most fluid and volatile part of international investment for the simple reason that most of such assets are constantly migrating from country to country in the endless process of cross-currency and interest rate arbitrage.

Total turnover in currency exchange markets has increased from $10 billion per day in 1973 to $1.3 trillion in 1993, an increase of 130 times in 20 years. Initially currency exchange was mainly meant to serve international commerce of goods and services. Today, annual trade in currencies exceeds $400 trillion, a staggering amount that is 80 times larger than world trade in goods (it was only

twice as large in 1973). Obviously, the basic material foundation of currency trading has been lost in the last two decades together with the crossover to floating exchange rates. The total daily volume of currency exchange has exceeded total world official gold and foreign currency reserves and is much larger than the combined reserves of the G-7 central banks. Obviously, governments and central banks are not in a position to influence exchange rates by monetary interventions and have to rely largely on psychological stimulants to perform their task at exchange rate stabilisation.

Another effect of exploding short-term foreign capital is the rise of transnational banking. Most leading commercial banks have become multinational, followed by investment banks, insurance companies and other financial institutions. Without internal multinational networks of branches equipped with modern computer and Internet linkages the banks could not be able to physically perform these staggering volumes of operations. But also because of their involvement in securities speculation, servicing short-term capital movements, financing foreign clients, their stability has been reduced, if not undermined. As the experience of the last decade shows, bankruptcies of large banks are not as remote a possibility as they were just a few decades ago.

3. Trends

There are a few controversial issues arising from economic globalisation. The issues for discussions in this section are:

(1) Are national economies still mostly self-contained or are they already mostly dependent on the world economy?

(2) Does globalisation necessarily go step in step with trade and other economic liberalisation?

(3) Is globalisation promoting economic stability or is it working towards larger cyclical and other fluctuations?

Level of self-containment and globalisation. It is obvious from the statistical discussion above that the level of globalisation, depending on which particular indicator is considered, is very different. International labour mobility is the least developed despite its apparent strong rise in recent decades. Trade interdependence is much higher than dependence on foreign labour though the exact comparison would have to take into account the impact of globalisation on national wage rates. Capital mobility is the most developed part of international exchange, particularly in portfolio investment and short-term

capital movements. Output interdependence can be rated to enjoy an intermediate position between these extremes.

UNCTAD has suggested an index of transnationality which is the average of ratios of foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.[12] However, this index has so far been applied only to data for transnational corporations, not to the whole economy. If the top hundred TNCs are considered, then the index is 51% in 1995 for all industries and ranging from 38% for metals to 68% for construction. The industries that are known to be highly globalised - automotive, electronics and petroleum - carry indexes of 44%, 49% and 50%, while the seemingly more domestic oriented food and beverages industry has a much higher index of 61%.

The high rate of globalisation characteristic of the top TNCs is, of course, related to the fact that they account for the predominant share of total outward-going foreign direct investment. This share for the top 50 TNCs in ten major capital-exporting countries is estimated to be between 52% for Germany and 63% for the US to 96% for Australia. What it means is that national economies are today a combination of two sectors - one represented by a small number of TNCs and oriented largely towards the outside economy, and a majority of smaller enterprises with a predominant domestic orientation. Part of these are subcontractors for the TNCs and therefore also indirectly integrated into the transnational network but their share, to our best knowledge, has so far not been estimated.

Because of this duality it is easy to both exaggerate and underestimate the actual level of globalisation of national economies. For instance, when the NBER indicates that foreign branches of multinational corporations account for about 15% of the world's industrial output, while 85% is produced by domestic corporations in single geographical locals,[13] it is probably correct. But such branches should be seen as parts of much larger companies in which output in their home country is largely integrated or at least co-ordinated with output, sales and investment in their foreign affiliates.

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12 World Investment Report 1997, pp. 33-34.

13 R. E. Lipsey, M. Blomstrom, E. Ronstetter, "International Production in World Output", National Bureau of Economic Research, Working Paper 5385, 1995.

Assuming an average transnationality index of 0.48,[14] this implies a rough doubling of their figure. Now, 30% of the world's industrial output directly associated with globalisation and not counting TNCs subcontractors, is a very high ratio of output interdependence.

There are other subtle globalisation effects that are not captured by statistics. As indicated in section 1, the overall share of services in total GDP has increased substantially in recent decades. Since most of them remain non-tradable (albeit more tradable than previously thanks to modern computer-telecommunications systems), the geographical scope of their immediate markets remains national or even local. However, as correctly indicated in the latest World Investment Report, some non-tradable services are being increasingly standardised. International hotel chains or transnational fast-food companies provide more or less the same product to consumers around the world while they are not necessarily linked through trade.

It is true that most international trade and capital flows are accounted for by exchange among the most industrially developed countries. The share of trade between them in total world commerce is increasing. High-income economies accounted for 69.6% of world exports and 74.2% of world imports in 1980. Their shares expanded to 77.7 and 76.8% respectively in 1995.[15] The share of developed countries in world outward stock of foreign direct investment was 97.8% and 77.8% in world inward stock in 1980. These figures changed to 91.0 and 70.2% respectively in 1996.[16] The trend towards more investment integration between the developed and developing countries is clearly seen but the interflow of capital among the richer nations remains by far predominant.

Both country groups have increased their dependence on external trade and capital flows. Goods exports were on the average 42,9% of the non-service GDP of high income countries in 1980 rising to 52,1% in 1995. The same ratios for the rest of the world changed from 33,7% in 1980 to 40.3% in 1995.[17] The

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[14] World Investment Report, p. 28.

[15] World Development Report 1997, p.243.

[16] World Investment Report 1997, pp. 313, 319.

[17] Calculated from data in World Development Report 1997.

developed countries are on average more dependent on external trade than developing countries.

The ratio of inward stock of foreign direct investment to GDP has become more important for both groups of countries rising from 4.8% in 1980 to 9.1% in 1995 in the developed countries and from 4.4 to 15.4% in the developing countries.[18] It is probably correct to conclude that both international trade flows and foreign investment have become significant factors affecting overall economic performance of most parts of the world.

However, the extent of global interdependence should not be exaggerated. While production in TNCs is about equally divided today between the home country and foreign markets, overall economic activity, on the average, within national boundaries remains the dominant part of total economic activity. In the next section we consider in more detail country and regional deviations from this general proposition.

Interdependence and liberalisation. National and concerted policy measures to enhance freer movement of trade and capital flows across borders have been on the rise in the recent decade leading to a much higher degree of liberalisation than at any time in the past. While this progress has been uneven in various countries and regions there have been no significant instances of regression towards official protectionism.

However, this does not necessarily mean that trade is becoming less subject to various other constraints and that competition in international goods and capital markets has become more open. In fact, there are serious indications to the contrary.

The increasing share of world trade performed within transnational corporations is for all practical purposes isolated from open markets and direct competition. When Boeing (the largest world producer of aeroplanes) or Seagate (the top world producer of hard-disk drives for computers) import hundreds and thousands of components for their final assembly from different affiliates in different countries or sell their products to oligopolistically organised airlines,

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[18] World Investment Report 1997, p. 339, 341.

computer companies and governments around the world, there is next to no free competition since all such flows are either determined by intra-firm plans or by co-operative arrangements with other firms and governments.

Because the upsurge in globalisation has largely taken the form of TNC expansion, it has led to increasing concentration on a global scale not only in terms of rising shares of top TNCs in total output and sales but also in rising collusion between potential competitors, mergers and acquisitions with a monopolising effect, exclusionary vertical practices and predatory behaviour.[19] As a result, entry of new producers in world goods markets is more restrained and competition is mainly restricted to oligopolistic rivalry between the giants of the industry. Under such conditions relative advantages already gained and dominant positions acquired in the past by leading countries and companies tend to become ossified and even stronger - to the detriment to newly emerging competitors.

This trend is supported by the relative weakness or absence of competition law and competition policies regulating trade and investment flows and TNC practices. It is not clear to what extent such anti-monopoly policies could be effective in the face of the strong technological inducements to concentration and collusion. The need for such policies on an international level is clear. Yet most of the necessary institutional and legal infrastructure has yet to be created.

Globalisation, growth and instability. There is no evidence that rapid globalisation has so far resulted in faster overall growth of the world economy. In fact, the evidence is quite to the contrary (see Table 5).

Table 5. Average Annual Growth Rates of World GDP (%)

period	growth rate
1900-1929	2.2
1929-1950	1.8
1950-1960	4.6
1960-1970	4.0
1970-1980	3.8
1980-1990	3.1

[19] For a detailed discussion of these aspects see World Investment Report 1997, pp. 133-178.

	1990-1995	2.0

Sources: Madisson, op. cit., World Development Report 1997.

World growth fell from the relatively high rates of 1950-1980 to much lower rates in 1980-1995, particularly in the 1990s and was more in line with the previous low rates of the first half of the century.

If one correlates this change with the fact that the 1950-1980 period was characterised as the decades of flourishing Keynesian-type intervention of national governments in the economy and that the latter period was one of the demise of national state intervention and the rapid growth of neoliberal policies in line with globalisation, then the conclusion leaps to the eye: globalisation (at least in its present form) has certainly been a factor in seriously slowing down world economic growth.

Whether other factors not directly tied to globalisation were important in bringing about this result is a subject for further research. One would assume that rapid technical progress associated with privatisation should have been a significant addition to the growth potential. However, if it did, it was certainly overcome by other factors working for deceleration.

The other effect is the growing economic instability which is more pronounced in the highly volatile capital and foreign exchange markets but which is also beginning to affect some sectors of the real economy. The worldwide stock market crash of October-November 1997 is one manifestation of this trend. Unlike the previous crash of 1987 which was mostly Wall Street rooted, the latest panic originated in Southeast Asia and was directly connected with speculative international capital entering the region in large quantity in the previous years and then leaving in a rush in response to local financial tremors. Something similar occurred in Mexico in 1994. But the main question this time around is why did the relatively small bourses of Hong Kong and neighbouring countries so seriously affect the much larger markets in Japan, Europe and the US. How come that the tail was able to wag the dog?

One reason is that the crises in Southeast Asia were caused in part by serious troubles in their real economies and particularly in the sectors that are strongly integrated with the world economy via the TNCs. The companies most seriously

hit in New York and elsewhere in the rich countries were TNCs with high-tech component producing affiliates in Thailand and Malaysia. Also hit were leading transnational banks with large and sometimes questionable assets in the same region. Underlying the crisis were overproduction and sales problems of these industries accentuated by wide currency fluctuations which tended to undermine their competitive position in world markets.

This leads us to a hypothesis first suggested to our knowledge by William Greider[20] in 1997 but well before the recent crisis. Greider believes that the rapid expansion of foreign affiliates of TNCs tends to create overcapacity in the related industries since it adds new capacity in new countries without the compensatory elimination of old capacity in the richer part of the world. This overexpansion can be financed only by higher profit margins which are based on utilising low-cost labour in the poorer countries as well as eliminating high cost jobs and pressuring wages to stagnate in the richer countries. As a result, consumer demand tends to lag behind rising output which should eventually lead to an overproduction crisis of major proportions. Unlike Keynesian policies, neoliberal and monetarist policies are not equipped to prevent or mitigate overproduction problems. Effective anti-crisis intervention has been long rejected by national governments and concerted intergovernmental action in areas not related to exchange rates and short-term financial fire fighting is all but absent.

Countering Greider's thesis is the claim that the richer countries are not very dependent on new countries where most of the overproduction is bound to concentrate.[21] However, as the recent crisis has demonstrated, some richer countries, like Japan and Korea, are more dependent than others on trade with the regions and recessions in these countries would inevitably also affect the US and Europe. Globalisation tends to increase the exposure of stronger economies to crises in weaker economies. The linkage in trade and other goods flows is magnified by linkages in intra-TNC finance and short-term capital volatility. A

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20 William Greider, "One World, Ready or Not? The Manic Logic of Global Capitalism," Simon & Schuster, New York, 1997.

21 This thesis has been aired not only in Mr. Greenspan's public statements but also (among academic economists) by Paul Krugman as quoted in the "new York Times," Nov. 17, 1997.

combination of these could reach a critical volume sufficient to set off a chain reaction.

These hypotheses are new and not tested by either practice or by economic theory. There is room for serious academic research in this area.

4. Prospects

Has globalisation reached its limits? How much room is there for further economic integration? Are national economies bound to disappear giving way to one integrated world economy? Definite answers to these questions will be known only in the next century, something we can only hypothesise about.

As pointed out above, apart from the TNCs, domestic economic ties in the world as a whole and in most countries are still larger than the flows between nations. This conclusion is true on average and for most national economies. In big countries with big populations the share of external ties tends to be smaller, all other factors being equal. Thus, in the group of high income economies, Japan and the US are the two countries with the lowest ratios of exports of goods and services in total GDP (9 and 11%) while the two countries with the highest shares are Singapore and Hong Kong (207 and 147% - see table 6). All these countries, as well as the ones with average shares (Germany and France), are highly integrated with the world economy by any modern criteria.

It is not believable that most countries in the high-income economies group would tend to converge in statistical trade dependence to figures cited for Hong Kong or Singapore. But it is quite possible for them to tend to come closer to the average level and even exceed them in future decades. This movement, if the past is any indication of the future, will probably be rather slow. In the 15 years between 1980 and 1995 the share of exports of goods and services in US GDP has increased by a meagre one percentage point (from 10 to 11%) and for Japan it even fell (from 14 to 9).

Table 6 also demonstrates the practical absence of any pronounced correlation between per capita income and trade dependence. Average shares are practically the same for all the country groups presented in the table. Countries with very different economies in development level and structure tend to have approximately the same level of foreign trade dependence. It is therefore hard to believe that in the future, trade dependence will increase (at least substantially)

in line with the rise in productivity and income per capita levels. As manufacturing industries and modern services develop in the lower-income economies, a substantial part of their output, not necessarily linked to foreign TNCs, will tend to be oriented towards domestic markets before it is able to compete in international trade. Which means that we do not expect dependence on foreign trade to rise very much in the coming decades.

Table 6. Share of exports of goods and services in total GDP, 1995 (%)

Country group and average share	Countries with largest share in group	Countries with average share in group	Countries with smallest share in group
High-income - 22	Singapore - 207 Hong Kong - 147	Germany - 23 France - 23	Japan - 9 US - 11
Upper middle income - 22	Malaysia - 96 Mauritius - 58	Greece - 22 South Africa - 22	Brazil - 7 Argentina - 9
Lower middle income -24	Jamaica - 69 Slovakia - 63	Indonesia -25 Russia - 22	Peru - 12 Colombia - 15
Low-income economies -19 Same excluding India and China -24	Angola - 74 Congo - 62	China - 21 Mali - 22	Rwanda - 6 Cambodia - 11

Source: World Development Report 1997, pp. 238-239

It is more probable that further economic interdependence will be shown in capital movements between countries. As demonstrated above, average ratios of inward foreign direct investment stock to GDP have risen substantially between 1980 and 1995 in both developed and developing economies. Table 7 shows these ratios for 1995 in different country groups.

Among the developed countries Japan and the US are, as in trade, among the least dependent. Yet in absolute value the US is by far the largest world attractor of foreign direct investment. One can hardly expect the US to integrate much more that it already has. On the other hand, Japan has a big potential for attracting more direct foreign capital. As an international financial centre it is already much more integrated. Some developed countries with relatively small economies tend to attract rather large foreign capital, ranging from 28 to 44%

on ratio (Benelux, Australia, New Zealand. But other small-developed countries, like Finland and Iceland lag far behind. Reasons for the difference are largely historical and geographical.

In the developing economies group many important countries are highly dependent on foreign capital, probably up to the limit (Singapore, Malaysia, and Saudi Arabia), while many others are relatively less involved (Brazil, Thailand) but with a potential for further involvement. Still others are practically out of the picture. One country setting an example is China with its substantial stock of foreign capital that looks relatively moderate only in relation to its huge GDP (18.2% - most of it accumulated in the 1990s). Russia (not shown in the table with a ratio of only 1.1%) is still at the beginning of its integration in terms of direct foreign investment while its dependence on foreign trade (both exports and imports) is already fairly large for a big country.

One can hardly expect globalisation to lead to the demise of the national economies within the observable future. The European Community is, of course, a special case. The success of EC integration (despite its many problem) underlines the significance one of the most important barriers to further globalisation and integration, i.e. the large differences in incomes in different groups of country. Integration has been more successful between developed countries with relatively close per capita incomes (and wage levels). Where the income gaps are large, integration proceeds but without any attempt at eliminating national economic barriers between countries. This relates first and foremost to TNC expansion in the developing countries.

Table 7. Ratios of inward foreign direct investment stock to GDP, 1995 (%)

Country groups and average ratios	Countries with highest ratios	Countries with average ratios	Countries with lowest ratios
Developed countries - 9.1	New Zealand - 43.9 Belgium and Luxembourg - 31	France - 9.6 Austria - 8.0	Japan - 0.3 Iceland - 3.6

Western Europe - 13.4	Belgium and Luxembourg - 31 UK - 28.5 Netherlands - 28.4	Norway - 13.4 Denmark - 13.1	Iceland - 3.6 Finland - 6.8
North America - 8.7	Canada - 21.7	-	US - 7.7
Other developed - 2.9	New Zealand - 43.9 Australia - 30.8	Israel - 6.2 South Africa - 7.8	Japan - 0.3
Developing - 15.4	Saint Kitts and Nevis - 117.4 Liberia - 113.9	China - 18.2 Thailand - 10.3	Afghanistan - 0.3 Bangladesh - 0.6
Africa - 13.3	Liberia - 113.9 Swaziland - 80.4	Niger - 13.5 Mozambique - 12.2	Zimbabwe - 1.1 Livia - 1.2
Latin America - 18.4	Saint Kitts and Nevis - 117.4 Antigua and Barbuda - 111.9	Brazil - 17.8 Ecuador 17.7	Haiti - 5.7 Urugyay - 8.1
West Asia - 9.6	Saudi Arabia - 34.3 Oman - 19.4	Yemen - 16.2 Bahrain - 11.5	Syria - 2.0 Qatar - 3.3
South, East and Southeast Asia - 15.1	Singapore - 67.4 Malaysia - 52.1	China - 18.2 Cambodia - 15.4 Laos - 11.9 Thailand - 10.3	Afghanistan - 0.3 Bangladesh - 0.6

The problem, in a theoretical setting, is that in a world economy were there are no national frontiers labour should ideally be as mobile as capital in order for the system to reach maximum efficiency. In such a world labour mobility would in the long run lead to a convergence of national wage rates as well as unit labour costs and profitability levels. Wage rates need not be exactly the same but the wide gap that exists today would have to be largely eliminated. In the long run that would probably mean a substantial rise in wage rates in the developing countries and a reduction of wage rates in the developed world.

While in the developing world there should not be too much difficulty in raising wage rates from their current low levels, at least not in the near future, reducing wages or even keeping real wages stagnant in the richer countries is a process leading to social controversy.

These controversies are already evident even though national economic boundaries still very much in existence. This is particularly true in those richer countries were governments are permitting real wages to stagnate while local jobs are lost to foreign affiliates of large corporations. The US is one example of the erosion of trade union power that has gone along with the rise of TNCs. The resulting negative reaction is finally being felt. The recent lack of support in US Congress for "fast-track" trade negotiating is largely due to pressure from organised labour on Democratic congressmen from large labour constituencies that are displeased by closed factories, lost jobs and stagnant wages as a result of production having been moved to low-wage countries.

While national governments are in existence, conflicts such as these will gain force unless some way is found to resolve the issue in a smoother manner than the current downsizing. The latter is generally accepted in the richer countries as a progressive "reform" that should be modelled on the US example. It is doubtful that it is, in fact, the best way of resolving the problem.

On the other hand, the TNCs are vitally interested in retaining national borders in the developing countries which serve as natural barriers to absolute labour mobility and thus help keep wages in these countries from rising too fast.

To make the point clearer (and, perhaps, closer to reality), consider the case of two former communist countries in Europe that are being integrated into the world system, albeit in two very different way. These two countries are East Germany (former German Democratic Republic) and the Czech Republic. Both were roughly comparable in industrial structure, wage rates and per capita incomes prior to the fall of communist regimes in 1989. But one was integrated into a larger Germany, as part of that country while the other retained its sovereignty.

In Eastern Germany wage rates were substantially increased and brought up to about 70% or more of their level in Western Germany though output in the eastern lands is still way below its pre-unification peak and unemployment there

is much higher. This had a controversial effect on the economy of the united country and has created financial and political problems for the German government. In Czechia real wages were reduced by market reforms, but mass unemployment was avoided and output levels have exceeded the pre-reform peak.

The reason for raising wages in East Germany was that the government in Bonn was now responsible for the residents of that region who had equal voting rights with other Germans and thus had a claim on the resources of a united country. But the Czechs had no "rich big brother" to care for them. Their integration into the EC is delayed. Lower wages (perhaps four or five times lower than in Germany) are the "price" paid for retaining their national identity. Of course, unlike East Germany, Czechia had no other choice.

The moral of the story is that retaining national borders is in the interests of TNCs because it helps sustain barriers to international labour mobility. When borders are eliminated, the gap in income levels is reduced too fast and this will never happen unless there is an overriding political or other non-economic benefit to be gained by political integration.

Therefore, while economic and even political integration between the richer countries might proceed in the foreseeable future at a respectable rate, integration between the richer and the poorer parts of the world will remain restricted to certain trade and capital liberalisation measures but will not extend to elimination of national borders, either economically (common market, free flow of goods, labour and capital, common currency etc.) or politically (common government institutions).

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